

treasury and options transactions, these transactions being executed in certain instances with Madoff as the principal. During the year, the Company executed transactions of approximately €12.5 billion (2006 - €10.1 billion). Madoff's only form of remuneration is from any principal spread and/or commission on the transactions. Madoff also acts as custodian for investment assets of the Company...."

Other entities' role in the Kingate Funds' operation

48. Pursuant to its duties and powers of delegation under the Management Agreements, KML and the Kingate Funds also contracted with other third parties regarding the operations of the Kingate Funds.

Administrator

49. Pursuant to agreements dated 1 June 2007 (replacing the previous administration agreements which had been in place between the parties), Citi Hedge Fund Services Ltd (formerly Hemisphere Management Limited and BISYS Hedge Fund Services Ltd, "Citi") was retained by KML and the Kingate Funds to provide company secretarial, registrar and transfer agency, accounting and other administrative services to the Kingate Funds. In return for its performance of these services, the Kingate Funds paid Citi fees in accordance with the provisions of those agreements.
50. Citi's role as administrator to the Kingate Funds was fully disclosed.

Information memoranda

51. The most recent Information Memorandum for Global Fund dated 6 October 2008 (at tab 4) contained the following statement:

"The Administrator

Citi Hedge Fund Services, Ltd (formerly BISYS Hedge Fund Services Limited), a Bermuda registered company, has been appointed as the Fund's administrator (the "Administrator").

Pursuant to the Administration Agreement, as amended and restated effective June 1, 2007, and the Registrar Agreement, as amended and re-stated effective January 1, 2002, the Administrator is responsible for all matters pertaining to the administration of the Fund, including, without limitation:

- (i) communicating with the Fund's Shareholders;*
- (ii) communication with the general public;*
- (iii) soliciting sales of the Fund's stock;*
- (iv) accepting the subscriptions of new Shareholders;*
- (v) maintaining the Fund's principal corporate records and books of account;*
- (vi) disbursing payments of dividends, legal fees, accounting fees, and officers' and directors' salaries;*
- (vii) calculating, publishing or furnishing the subscription or redemption price of the [Shares]*

- (viii) conducting meetings of the Fund's Shareholders and Directors; and
- (ix) making redemptions of the [Shares].

The Administrator will also provide the services of an individual to act as secretary of the Fund.

.....

Fees of the Administrator

For its administrative duties relating to the [Shares], the Administrator receives customary fees paid out of the Fund assets based upon the nature and extent of the services performed by the Administrator for the Fund. The compensation provisions of the Administration Agreement may be revised in the future."

52. The most recent Information Memorandum for Euro Fund dated 6 October 2008 (at tab 5) contained materially the same disclosure, save that it also confirmed that Citi would be reimbursed for all out-of-pocket expenses.

Financial statements

53. The audited financial statements for Global Fund as at 31 December 2007 (tab 13), as prepared by PwC, contain the following disclosure regarding Citi's role:

"Citi Hedge Fund Services Ltd, (formerly BISYS Hedge Fund Services Ltd) serves as Administrator of the Company (the "Administrator"). On August 1, 2007, The BISYS Group Inc., was acquired by and became a wholly owned subsidiary of Citigroup Inc.

In addition, the Administrator acts as Secretary and Registrar for the Company. For its services, the Administrator receives a fee paid out of the Company's assets based upon the monthly net assets of the Company. Administration fees incurred by the Company during the year were \$666,795 (2006 - \$611,802). As of December 31, 2007, administration fees of \$57,463 (2006 - \$53,617) were payable."

54. The audited financial statements for Euro Fund as at 31 December 2007 (tab 14), again as prepared by PwC, contain the following disclosure regarding Citi's role:

"Administrator

Citi Hedge Fund Services Ltd, (formerly BISYS Hedge Fund Services Ltd) serves as administrator of the Fund (the "Administrator"). On August 1, 2007, the BISYS Group Inc., was acquired by and became a wholly owned subsidiary of Citigroup Inc.

The Administrator also act as Secretary and Registrar for the Company. For its services, the Administrator receives a fee paid out of the Company's assets based upon the monthly net assets of the Company. Administration fees incurred by the Company during the year were €146,118 (2006 - €131,559). As of December 31, 2007, administration fees of €13,372 (2006 - €11,453) were payable."

The Custodian

Pursuant to agreements dated 1994 (for Global Fund) and 1 May 2000 (for Euro Fund), The Bank of Bermuda Limited (an indirect 100% subsidiary of HSBC Holdings plc) was retained by the Kingate Funds to carry out the functions of banker and custodian to the Kingate Funds, for the purposes of receiving subscription funds, disbursing redemption payments and processing cash transactions not directly related to the Kingate Funds' portfolios. A copy of these agreements is at tab 16 and tab 17. In return for its performance of these services, the Kingate Funds paid The Bank of Bermuda fees in accordance with the provisions of those agreements.

56. In addition to the fees received by The Bank of Bermuda in connection with its services to the Kingate Funds, it also made lucrative margins in providing foreign exchange contract execution services to the Euro Fund.
57. The Bank of Bermuda's role as banker and custodian to the Kingate Funds was fully disclosed.

Information memoranda

58. The most recent Information Memorandum for Global Fund dated 6 October 2008 (at tab 4) contained the following statements:

"Banking and Custody

The Bank of Bermuda Limited, located in Hamilton, Bermuda (the "Bank") has been appointed as the Fund's banker for purposes of receiving subscription funds, dispersing redemption payments and processing cash transactions not directly related to the Fund portfolio. Actual custody, however, is with [BMIS] ...

The Bank of Bermuda Limited is a licensed bank incorporated in Bermuda under the Bank of Bermuda Act 1890. The Bank of Bermuda Limited is engaged in a wide range of international banking and trust services with its main office in Bermuda and its subsidiaries worldwide. On February 18, 2004, the Bank of Bermuda Limited became an indirect wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England. As of December 31, 2005, HSBC Holdings plc had consolidated gross assets of approximately US\$1.467 billion..."

.....

Fees of the Bank

Pursuant to the Custodian Agreement, the Bank receives a custodian services fee comprised of (i) an annual safekeeping charge equal to 10 basis points (.10%) of the gross asset value of the Fund with a maximum of U.S.\$25,000 per annum and (ii) the right to recover all sub-custodian charges which will be charged directly to the Fund. The Bank is entitled to reimbursement of actual out-of-pocket expenses. The compensation provisions of the Custodian Agreement may be revised in the future."

59. The most recent Information Memorandum for Euro Fund dated 6 October 2008 (at tab 5) contained this following statement:

"Banking and Custody

Banking. The Bank of Bermuda Limited, located in Hamilton, Bermuda (the "Bank"), has been appointed as the Fund's banker for purposes of receiving subscription

funds, disbursing redemption payments and processing cash transactions not directly related to the Fund's portfolio. ...

Custody. Neither the Bank nor the Manager has custody of any of the Fund's assets, nor do they presently propose to perform any such services for the Fund. Actual custody of the Funds' [sic] assets will be maintained by the Investment Advisor or its affiliated broker dealer ..."

Financial statements

60. The audited financial statements for Global Fund as at 31 December 2007 (tab 13), as prepared by PWC, contain the following disclosure regarding The Bank of Bermuda's role:

"The Bank of Bermuda Limited (the "Bank") has been appointed banker for the Company. For its services, the Bank receives 0.10% of the gross asset value of the Company with a maximum of \$25,000 per annum."

61. The audited financial statements for Euro Fund as at 31 December 2007 (tab 14) also as prepared by PWC contain the following disclosure regarding Bank of Bermuda's role:

"The Bank of Bermuda Limited (the "Bank") has been appointed banker for the Company."

Consultant and distributor

62. Pursuant to agreements described further below, FIM Advisers LLP (formerly FIM Limited, taken together "FIM") was retained by KML to provide certain consultancy and distribution services to the Kingate Funds. In return for performance of these services, KML paid FIM fees in accordance with the provisions of those agreements. FIM's role as consultant to the Kingate Funds was fully disclosed, as described further below.

FIM's role as consultant and distributor to KML

Background to the FIM group of companies

63. The FIM group of companies (the "FIM Group") comprises the following entities (a structure chart of the FIM Group is at tab 18):

- FIM Limited;
- FIM Advisers LLP;
- FIM Holdings Limited;
- FIM Management Limited;
- FIM Investment Holdings (Ireland) Limited;
- FIM Management (Guernsey) Limited; and
- FIM (USA) Inc.

Before the impact of the current financial crisis, the FIM Group employed 50 people. It currently employs a total of 30 individuals, located in London (24), New York (4) and Bermuda (2).

The business of FIM

65. FIM is a London-based alternative investment management company active in the creation, management and servicing of portfolios of hedge funds for institutional and private clients on a global basis.
66. FIM was established in 1981 by Carlo Grosso and members of a substantial family group to provide traditional asset management services to high net-worth individuals. Throughout the 1980s, FIM Limited managed portfolios for wealthy investors along traditional lines. By 1993/1994, all of FIM's managed portfolios had been converted into customized funds of hedge funds, following extensive research and due diligence. In 1997, the firm launched FIM Long-Invest, its first fund of hedge funds to be marketed outside the circle of its discretionary managed accounts. In 2005, FIM undertook a reorganisation of its business, creating a limited liability partnership in the UK (FIM Advisers LLP, to which it transferred all its management/advisory contracts), expanding its research function into the United States and streamlining its offshore operations by establishing offices in Bermuda and Guernsey.
67. Key milestones in the history of FIM are as follows:

Year	Event
1981	FIM Limited established
1988	FIM obtains first regulatory status with Financial Intermediaries, Managers and Brokers Regulatory Association (predecessor regulatory body to Investment Management Regulatory Organisation and the Financial Services Authority)
1994	Completes full conversion of discretionary managed portfolios into customised funds of funds, comprised exclusively of hedge funds
1995	Appointed consultant to Kingate Global Fund
1997	Launch of FIM Long-Invest Fund, FIM's flagship low volatility fund
	Appointed fund advisor to Levco Alternative Fund
2000	FIM expands investment management activities into institutional marketplace
2001	Appointed consultant to Kingate Euro Fund
	Wins mandate as investment advisor for an Italian bank's fund of hedge funds products
	Appointed fund advisor to Levco Debt Opportunity Fund
2005	FIM Advisers LLP is approved by the Financial Services Authority and takes over the investment management/advisory contracts from FIM Limited

	Wins mandate as advisor for the funds of funds of Italy's largest bank
	FIM Management Limited established in Bermuda
	New York Research Office opened
2006	FIM breaks through US\$2 billion in assets under management/advice
	Launch of FIM Relative Value Fund
	Launch of FIM Long-Invest Plus Fund
	FIM Long-Invest Fund assets break through \$1 billion
2007	Installation & conversion of fully integrated portfolio management and client reporting system
	Launch of FIM Global Opportunity (Formerly FIM Event Driven)
	FIM breaks through US\$2billion in assets under management/advice

68. At tab 19 are copies of articles from industry publications dated June 2007 and March 2008 reporting on the business of FIM Advisors LLP.
69. FIM has been authorised and regulated by the United Kingdom Financial Services Authority (or its predecessors) since early 1988 and has maintained a spotless regulatory record throughout this period. It is of note that financial services businesses in the United Kingdom were not statutorily obliged to be regulated before 29 April 1988. Extracts from the Financial Services Authority's website showing the authorisation status of FIM Advisers LLP, Carlo Grosso and Federico Ceretti are at tab 20.
70. As noted further below, the consultancy and distribution fees earned by FIM over the course of its agreements with KML represent a very small proportion of its overall turnover (and profit). The vast majority of FIM's business and focus relates to its substantial investment management business.
71. FIM has actively invested in hedge funds since the mid-1990s. At the current time, FIM manages a total of 5 separate funds of funds, which have attracted substantial investments. As at September 2008, 95% of FIM's client base was institutional, such institutional investors included banks (56.11%), asset managers (33.77%), insurance companies (3.17%), pension funds and government agencies (0.31%).
72. About two-thirds of the funds of hedge funds that FIM manages or advises have as their principal objective low volatility of returns. FIM focuses its research on developing low-volatility strategies. This focus stems from a conviction about the power of compounding and the need to preserve capital throughout different economic and market cycles.
73. In the spring of 2008, FIM had total assets under management of US\$4.33 billion. The subsequent global economic crisis caused significant losses in the hedge funds industry. FIM lost assets in the same proportion as other market participants. As at 31 October 2008, FIM had total assets under management of US\$2.6 billion. A chart showing the asset growth of FIM's funds of funds between December 1999 and December 2008 is at tab 21.

As a result of its extensive and long-established fund management activities, FIM has, historically, generated substantial profits. These profits for the last four years are illustrated in the table below:

Year	Turnover (£)	Operating Profit (£)
2008	11,176,709	5,290,096
2007	15,987,981	11,733,984
2006	9,975,119	5,355,457
2005	8,351,993	2,363,085

75. FIM also acts as advisor to a series of third party funds of funds. In August 2006, FIM was ranked second (by market share) in a list of external hedge fund advisors providing advisory services to Italian hedge funds, behind Union Bancaire Privée and ahead of entities such as HSBC Republic and Goldman Sachs Hedge Fund Strategies (see Industry publication at tab 22). As at 31 December 2008, FIM provided such services to institutions including Aletti Gestielle Alternative Sgr, Eurizon Alternative Investments Sgr and Gotiardo A.M. Sgr Alternative.
76. In connection with its managed/advised funds of funds, FIM has distribution agreements with financial institutions such as Barclays Bank Plc, Banco Bilbao Vizcaya Argentaria S.A., Credit Agricole Structured Asset Management, Credit Suisse International, HSBC Bank Plc, UBI Banca International, and others.
77. In addition to its main asset management activities, FIM provides consultancy and distribution services to KML pursuant to contracts entered into between FIM and KML.
78. A copy of FIM's latest filed accounts is at tab 23. A copy of a recent FIM overview document describing the activities of that company is at tab 24.

Bermuda office

79. FIM Management Limited provides administrative support services to the FIM Group. It occupies premises at 99 Front Street, Hamilton HM11 Bermuda subject to a tenancy agreement dated 18 October 2006 (tab 25). KML is licensed to occupy part of these premises pursuant to a commercial agreement dated 1 November 2006 (tab 26). The businesses of FIM Management Limited and KML are entirely separate. The businesses occupy distinct parts of the Premises.

Consultancy Agreements

80. On 23 April 2001, KML as manager of the Kingate Funds entered into consulting services agreements with FIM Limited relating to both Euro Fund and Global Fund (respectively the "Euro Consultancy Agreement" and "Global Consultancy Agreement", together the "Consultancy Agreements"). Copies are at tabs 27 and 28. The Global Consultancy Agreement amended and reinstated previous arrangements entered into between KML and FIM relating to Global Fund dating back to 1995. The Consultancy Agreements are consistent with the authorisation provided to KML under the Management Agreements for KML to appoint delegates to assist it in the discharge of its functions under those agreements, as detailed above.